Dean's 2021 series: Shaping our futures, in partnership with the Retirement Policy and Research Centre - *"Pressure points in our policies: Facing up to the ageing population?"* August 10th 2021

After a welcome from the Business School Dean, Professor Susan Watson, the Chair, Dr Claire Dale, introduced the Panelists: Matthew Bell, a senior Treasury Analyst, Professor Ngaire Kerse Joyce Cook Chair in Ageing Well and Co-Leader, Te Puāwaitanga o Ngā Tapuwae Kia Ora Tonu/Life and Living in Advanced Age: A Cohort Study in New Zealand (LiLACS NZ), a longitudinal study of Māori and non-Māori (joining via zoom), Retirement Commissioner Jane Wrightson and Associate Professor Susan St John, RPRC Director.

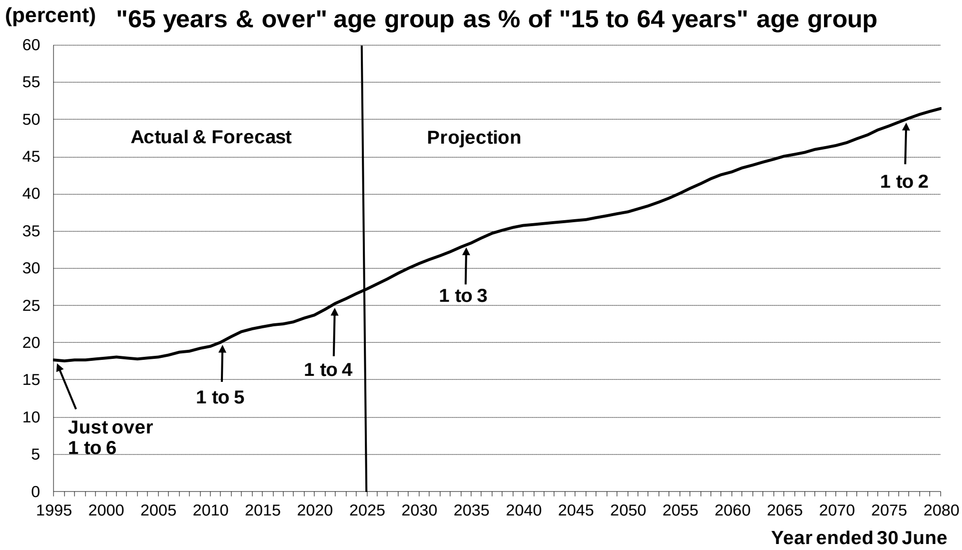
(Photo shows, from left, Retirement Commissioner Jane Wrightson, Matthew Bell, Associate Professor Susan St John and via zoom, Professor Ngaire Kerse.)

Setting the scene

We know the population is ageing and that has implications for rising pensions and health spending. In 2010, there was approximately one person over 65 to every five of working age and that is expected to fall to 1 to 3 by 2035 and eventually 1 to 2 by the end of the century. Given that retired people depend on those of working age to produce the necessary goods and services, increased competition for resources is expected.

"**The one factor in the projections that is …predictable is the ageing population structure, because many of the people incorporated in these projections are alive now. It is highly unlikely that fertility rates will rise significantly, or that longevity improvements will cease."** Matthew Bell.

Matthew Bell’s diagram below summarises this statistical context of demographic ageing for the panel contributions.



Matthew Bell began by discussing the forthcoming Long Term Fiscal Statement (LTFS) projections and the implications for future net debt if all policy settings, including those for tax policy, stay the same. The LTFS projections for NZS (as a % GDP) look more benign than those done 20 years ago due to much stronger labour force growth and hence strong GDP growth. A major source of this was significantly increased older age and female labour force participation rates. Although net NZS currently costs around $14 billion annually (around 5% of GDP), and the older population is likely to double by 2060 the proportionate cost of NZS is projected to reach only 7.5%.

Bell also clarified the New Zealand Superannuation Fund’s (NZSF) role in helping those future costs. NZSF is a means of tax smoothing and provides funding of some of the future cost of NZS, not reaching any significant levels until beyond 2060. And by 2100 it pays for only 11% of the net NZS cost. Neither of those outcomes aligns with the perception that having the NZSF means that NZS in its current form is sustainable.

As Bell explained “*It is important to understand that the NZSF will help greatly in the future, but is not a panacea to solve all fiscal pressures, including NZS… There are pressures coming in the future, and not just from an ageing population structure, but also in maintaining strong public health services, addressing disparity through the welfare system, and adapting to climate change, to name just a few!... Current tax and public spending policy settings are not going to be sustainable as the population structure continues to age. Changes will be needed.*” His powerpoints are here.

Professor Ngaire Kerse discussed the present and likely future of healthcare and support for our ethnically diverse ageing populations, whose multicultural mix has been increased by migration and diaspora. Attitudes to ageing vary across different cultures: for example, Māori, Pacific and Asian peoples tend to venerate the elderly. Women and men also tend toward different living arrangements, for example, nearly twice as many women (51% of Māori and 65% of non-Māori) aged 80+ live alone compared to men (26% of Māori and 33% of non-Māori). While more women and more Māori received informal care, non-Māori women received the most support services of all the groupings, suggesting the inequity in the health system continues into aged-care services.

As longevity increases, more people are ageing with health conditions including multimorbidity, polypharmacy, HIV and addictions. As Kerse explained, the problems of provision of care across vastly different environments, and the complexity of health care and increase of expensive therapies are driving the need for health reform. The future will require primary care investment, community engagement, and intersectoral work, with health, social services, transport, housing, and national and local government working together. Her powerpoints are here.

Retirement Commissioner Jane Wrightson shared Te Ara Ahunga Ora Retirement Commission's (RC) perspectives on both NZS and the general population's own financial preparation for retirement.

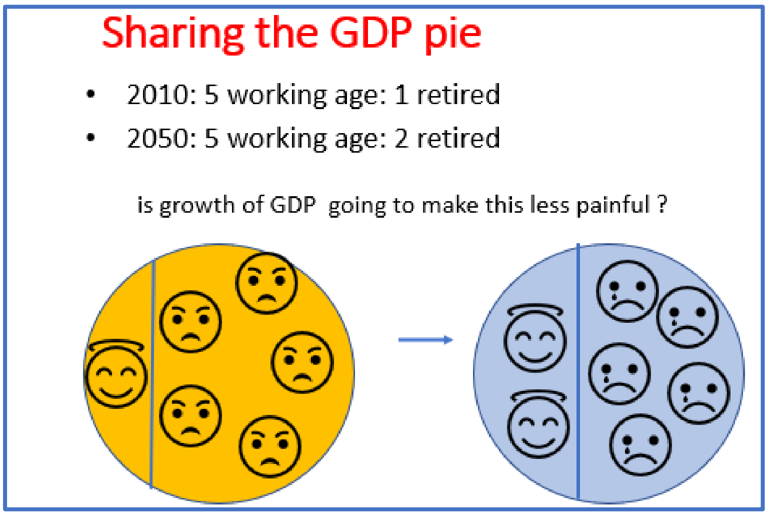
The RC aims to help New Zealanders retire with confidence, meaning New Zealanders feel secure they'll have resources to live and the know-how to make ends meet. The RC has three main focus areas: Retirement Income Policies, Retirement Villages and Financial Capability.

A stable retirement income framework enables trust and confidence that older New Zealand residents can live with dignity and mana, participate in and contribute to society, and enjoy a high level of belonging and connection to their whānau, community and country. The framework has two parts: NZS ensures an adequate standard of living for New Zealanders of eligible age and second, active support for New Zealanders to build and manage independent savings that contribute to their ability to maintain their own relative standard of living. And is NZS fair to all, when MSD's June 2021 report shows that of current NZS recipients, only 5.6% are Māori and just 2.6% are Pasifika. KiwiSaver is great, but the average balance is only $25,000.

Currently, COVID-19 has dented individual's ability to manage long-term saving as well as the Crown's fiscal position, and low interest rates have a negative effect for older people. We know that seniors' housing costs will be seriously impacted within two decades. NZS is not designed to include significant housing costs, and MSD already reports increasing uptake of supplementary assistance amongst NZS recipients (Accommodation Supplement, Special Needs Grant, Temporary Additional Support). As Wrightson said, "*Is it time to think harder about our tax settings? We are international outliers for not taxing capital gains, inheritance or land/property. And can we afford* ***not*** *to properly provide for seniors' wellbeing? Avoiding pension poverty is as important as addressing child poverty*." Her powerpoints are here.

Associate Professor Susan St John observed that since the late 1980s, a perception of crisis has been a familiar response to demographic change. She and Toni Ashton wrote a couple of books, one in 1988 'Superannuation in New Zealand: averting the crisis?', and in 1993 'Private pensions in New Zealand, can they avert the crisis?' And now, 35 years later, the net cost of NZS rises from 3.5% in 2010 to just 6.3% in 2060, which maybe doesn't sound too bad. BUT from 2030 the baby boomers start to enter the 85+ group so that by 2060, 1 in 4 of the population will be over 85 with much greater need for very expensive health and residential aged care, and we have no annuity or aged-care insurance mechanisms.

The title of Treasury's LTFS *He Tirohanga Mokopuna* 2021, acknowledges that our future depends on the young. We have a stewardship role to the next generation, and the future for older people and young is intertwined. GDP growth is the main reason the projections look so benign, but much of the growth will be to patch up disasters: leaky buildings, environment degradation. We have just learnt we are at code red for action on climate change if we are even to have a planet by 2060. We have an intractable housing crisis. Health professionals are under immense pressure. In the future GDP pie, will we have health services, aged-care nursing, well-designed cities? Are we retaining and nurturing young skilled people, ensuring their education and health?



It is really important to examine all policies carefully not just for their fiscal impact but for their capacity to help the growth of the kind of GDP that will actually alleviate the pressures. We cannot look to the NZSF to save us. It doesn't reduce the cost of NZS. It changes only the financing of it (a little less from current taxes and more from the NZSF). Contributing to and spending from the NZSF is money not spent on other valuable things. St John quoted Treasury, 2021, p.6: "*Small and gradual changes in the near-term could help minimise the cost of fiscal pressures across generations, preventing higher debt and a larger, relatively more costly adjustment in the future*." Her powerpoints are here.

Questions from the floor:

As we move toward a dominant 'gig economy' what will be the impact on retirement?
When will we have a research-led review of NZS and all associated retirement policies?
Why don't we increase the qualifying age for NZS?
Why isn't the Government ensuring adequate and affordable housing for pensioners?